

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 STR-08 TRSE-00 SP-03 AID-20

NSC-07 RSC-01 CIEP-03 SS-20 OMB-01 CEA-02 AGR-20

SWF-02 COME-00 L-03 TAR-02 CIAE-00 DODE-00 INR-11

NSAE-00 PA-04 USIA-15 PRS-01 DRC-01 /156 W

----- 010016

R 211651Z AUG 74

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 4052

INFO AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY SAN JOSE

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY BOGOTA

AMEMBASSY QUITO

C O N F I D E N T I A L GUATEMALA 4508

E.O. 11652: GDS

TAGS: ETRD, GT

SUBJECT: BANANA EXPORT TAX

REF: STATE 178011, GUATEMALA 4294

1. EMBOFF CALLED ON BANDEGUA (DEL MONTE) MANAGER TAYLOR AND ASSISTANT MANAGER PINTO AUG. 19 DISCUSS STATUS NEGOTIATIONS WITH GOG RE BANANA EXPORT TAX. ACCORDING TAYLOR, HE WAS CALLED IN BY VICEMINECON VILLACORTO JULY 31 FOR EXPLORATORY CONVERSATION. AS RESULT THIS CONVERSATION DEL MONTE EXECUTIVE JACK LOEB VISITED GUATEMALA AND TOGETHER WITH TAYLOR AND PINTO CALLED ON MINECON PALOMO AUG. 14. NEXT SCHEDULED INTERCHANGE IS TO BE THIS WEEK BUT TAYLOR HAS NOT RECEIVED INTRUCTIONS FROM HOME OFFICE.

2. WITH REGARD TO THE THRUST OF THE CONVERSATIONS,
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TAYLOR SAID THAT NEITHER PALOMO NOR OTHER GOG OFFICIALS HAS MADE

SPECIFIC PROPOSAL RE EXPORT TAX. RATHER, PALOMO HAS GONE TO GREAT LENGTHS TO EMPHASIZE FACT THAT GUATEMALA IS UNDER EXTREME PRESSURE FROM OTHER CENTRAL AMERICAN EXPORTERS AND, FOR THIS REASON, FEELS THAT IT MUST DO SOMETHING. IN DESCRIBING THIS POLITICAL PROBLEM, PALOMO DECLARED THAT GUATEMALA WAS IN A "BARREL" WITH THE OTHER CAS AND HAD TO LIVE WITH THEM. PALOMO REPORTEDLY EVEN WENT SO FAR AS TO EXCLAIM THAT HE PERSONALLY STRONGLY OPPOSES THE CONCEPT OF EXPORT TAXES ON ANY PRODUCTS. FROM THIS LOW KEY APPROACH, PALOMO THREW THE BALL TO DEL MONTE AND ASKED LOEB TO SUGGEST A SOLUTION. HE REPORTEDLY SAID THAT A "SOLUTION" MIGHT EVEN INCLUDE AN ARGUMENT HE MIGHT USE VIS A VIS PANAMA AND THE CA'S. HIS MAIN THRUST, HOWEVER, WAS TO SEEK A SOLUTION THAT INVOLVES A TAX. IN RESPONSE, LOEB REPORTEDLY SAID THAT DEL MONTE WOULD BE ABLE TO PAY A TAX IF AN EQUAL TAX WERE APPLIED IN ALL OTHER PRODUCING COUNTRIES, ESPECIALLY BY ECUADOR. OTHERWISE, HE SAID, GUATEMALA AS A SMALL PRODUCER (13 MILLION BOXES ANNUALLY) WOULD BE SHOVED OUT OF THE MARKET. HE THEREFORE DID NOT PROMISE TO RETURN WITH A TAX PROPOSAL. HE APPARENTLY MERELY SAID HE WOULD TALK WITH THE DEL MONTE BOARD AND ADVISE PALOMO OF THE RESULTS. REGARDING THE TONE OF THE CONVERSATIONS, TAYLOR REPORTED THAT ALL GOG OFFICIALS HAVE BEEN EXTREMELY CORDIAL AND NON DOGMATIC. HE FURTHER BELIEVES THAT THEY HAVE NOT YET MADE THEIR FINAL DECISION REGARDING THE TAX AND ARE THUS SINCERE IN THEIR REQUEST TO DEL MONTE TO SUGGEST "SOMETHING".

3. COMMENT CONVERSATIONS APPEAR TO BE OFF TO A FAIRLY GOOD START. PROBLEMS DO EXIST, OF COURSE. FOR ONE, PALOMO HAS NOT BEEN ENTIRELY CANDID IN STRESSING PRESSURE FROM OTHER CA'S AS THE PRIME REASON FOR SEEKING A TAX. AS REPORTED, HE TOLD AMBASSADOR CURRENT FISCAL BIND OF GOG ALSO ENTERS INTO PICTURE. HE APPARENTLY LET SLIP SOME REFERENCES IN THIS DIRECTION WHILE TALKING WITH LOEB BUT QUICKLY BRUSHED OVER THEM. ON THE DEL MONTE SIDE, THERE APPEARS TO HAVE BEEN CONSIDERABLE AMOUNT OF UNNECESSARY DESCRIPTION OF PROBLEMS THAT WOULD BEFALL GUATEMALA IF IT ADOPTS TAX (DISCUSSION OF NEW PLANTATIONS COMING ON TO STREAM IN MEXICO THAT WILL HAPPILY TAKE GUATEMALA'S PLACE IN THE MARKET, ETC.). PALOMO AND HIS ADVISERS KNOW THESE FACTS. THEY ALSO KNOW THAT IF ECUADOR SUPPORTS THE SCHEME IT WILL PROBABLY WORK. GIVEN GUATEMALA'S INCLINATION TO ACT COMBINED

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WITH ITS AWARENESS OF THE PROBLEMS, EMBASSY BELIEVES MOST APPROPRIATE STANCE FOR BOTH GOG AND DEL MONTE TO ADOPT IS A "WAIT AND SEE" STANCE. THAT IS, BOTH PARTIES WOULD CONTINUE PERIODIC MEETINGS PURPOSE OF WHICH WOULD BE TO FOLLOW DEVELOPMENTS IN OTHER COUNTRIES. THEY WOULD AGREE AT START, HOWEVER, NOT TO ACT UNLESS THE OTHERS HAVE IMPLEMENTED A WORKABLE SCHEME, AND THAT MEANS ECUADOR. IF IT IS NECESSARY TO DISSEMBLE FOR THE SAKE OF OTHER CA'S, PARTIES MIGHT ALSO DISCUSS DE-

TAILS OF SCHEME THAT WOULD BE
ADOPTED IF ABOVE MENTIONED CONDITIONS MATERIALIZE.

4. THE PROBLEM, OF COURSE, IS TO PERSUADE GOG AND COMPANY
TO ADOPT SUCH STANCE. EMBASSY FEELS THAT GOG MIGHT GO ALONG
IF DEL MONTE INITIALLY PLEDGES TO ACCEPT TAX UNDER THE "ALL
OTHER IN" CONDITION (LOEB APPARENTLY HAS ALREADY INDICATED
SUCH A COURSE WOULD CAUSE NO PROBLEMS). IF AFTER LOEB'S PRO-
POSAL GOG APPEARS HESITANT, AMBASSADOR, ON ONE-TIME BASIS, IN
PERSONAL INFORMAL CONVERSATION WITH PALOMO MIGHT UNDERLINE
OUR SUPPORT OF STANCE. HE WOULD NOTE MUTUAL DESIRE AVOID
GOVERNMENT-COMPANY CONFLICTS AS HAVE OCCURRED ELSEWHERE AND
SCORE FACT THAT BECAUSE GUATEMALA IS A RELATIVELY MINOR PRO-
DUCER OF BANANAS, IT WOULD BE DIFFICULT IF NOT IMPOSSIBLE
FOR EITHER GOG OR DEL MONTE TO TAKE LEAD IN THIS INTERNATIONAL
ISSUE. NOTING DEL MONTE'S WILLINGNESS TO GO ALONG WITH ANY
FINAL SOLUTION THAT MIGHT BE REACHED BY MAJOR PRODUCERS , HE
WOULD CONCLUDE BY EXPRESSING HOPE GOG WOULD FOLLOW SUIT SINCE
IT IS A COURSE THAT OFFERS POSSIBILITY OF GAIN AT NO RISK
OF LOSS. IF SUCH A COURSE WINS OVER THE GOG, WHAT IS NEEDED
ON THE PART OF DEL MONTE IS DECISION TO ADOPT LOW-KEY APPROACH
AND AVOID HORROR STORIES, IMPLIES THREATS ANDSIMILAR ALARMS.
IN TAKING THIS APPROACH ,ONE PROBLEM MAY BE TAYLOR; HE IS A
TECHNICIAN, A GROWER NOT A NEGOTIATOR. ACCORDINGLY, EMBASSY
SUGGESTS DEPARTMENT CONTACT LOEB TO DISCUSS ISSUE AND TO
EXPRESS VIEW THAT PROBLEM CAN BE KEPT ON BACK BURNER IF
APPROACHED IN LOW-KEY MANNER.
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